



STATE OF ALASKA
DEPARTMENT OF REVENUE
TREASURY DIVISION

INVESTED ASSETS UNDER THE INVESTMENT AUTHORITY OF THE COMMISSIONER OF REVENUE

JUNE 30, 2021

(With Independent Auditors' Report Thereon)

STATE OF ALASKA
DEPARTMENT OF REVENUE
TREASURY DIVISION

INVESTED ASSETS UNDER THE
INVESTMENT AUTHORITY OF THE
COMMISSIONER OF REVENUE

Combined Schedules

June 30, 2021

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KPMG LLP
Suite 600
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Anchorage, AK 99501

Independent Auditors' Report

State of Alaska, Department of Revenue
Treasury Division:

We have audited the total invested assets column in the accompanying combined schedule of invested assets and the total income (loss) column in the combined schedule of investment income for invested assets under the investment authority of the Commissioner of Revenue as of and for the year ended June 30, 2021, and the related notes to the schedules (collectively referred to as "the Schedules").

Management's Responsibility for the Schedules

Management is responsible for the preparation and fair presentation of the Schedules in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the schedules that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the Schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Schedules. The procedures selected depend upon the auditors' judgment, including the assessment of the risks of material misstatement of the Schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Schedules referred to above present fairly, in all material respects, the total invested assets and the total investment income for invested assets under the investment authority of the Commissioner of Revenue as of and for the year ended June 30, 2021, in accordance with U.S. generally accepted accounting principles.



Emphasis of Matter

We draw attention to Note 1 to the Schedules, which describes that the accompanying schedules represent only the activity of the funds outlined in Note 1 and were prepared to present the invested assets under the authority of the Commissioner of Revenue and related investment income, and not the complete financial activity of the funds or the State of Alaska as a whole. The complete financial activity of the funds is shown in the Annual Comprehensive Financial Report available from the Division of Finance in the Department of Administration.

KPMG LLP

Anchorage, Alaska
September 28, 2021

STATE OF ALASKA
DEPARTMENT OF REVENUE - TREASURY DIVISION
INVESTED ASSETS UNDER THE INVESTMENT AUTHORITY OF THE COMMISSIONER OF REVENUE

COMBINED SCHEDULE OF INVESTED ASSETS
June 30, 2021
(Expressed in thousands)

	GENERAL FUND and GeFONSI	CONSTITUTIONAL BUDGET RESERVE FUND MAIN	PUBLIC SCHOOL TRUST FUND	INVESTMENT LOSS TRUST FUND	GENERAL OBLIGATION BOND FUND	INTERNATIONAL AIRPORTS CONSTRUCTION FUND	INTERNATIONAL AIRPORTS FUND	POWER COST EQUALIZATION ENDOWMENT FUND	RETIREE HEALTH INSURANCE FUND		MINE RECLAMATION FUND	TOTAL INVESTED ASSETS 6/30/2021
									MAJOR MEDICAL	LONG-TERM CARE		
INVESTMENTS (at Fair Value) (Notes 4 and 5)												
Short-term Fixed Income Pool	\$ 2,831,305	1,076,103	7,304	3,749	86,518	31,531	152,991	9,852	18,963	6,198	13	4,224,527
Non-interest Bearing Deposits	41,926	-	-	-	-	-	-	-	-	-	-	41,926
Intermediate-term Fixed Income Pool	-	-	-	-	-	-	-	-	-	-	-	-
Broad Market Fixed Income Pool	737,242	-	244,912	-	-	-	42,479	689,141	-	408,228	427	2,122,429
Domestic Equity Pool	216,952	-	359,697	-	-	-	-	280,130	-	207,376	627	1,064,782
International Equity Pools	143,678	-	232,833	-	-	-	-	170,043	-	134,256	406	681,216
Tobacco Revenue Fixed Income	10,427	-	-	-	-	-	-	-	-	-	-	10,427
Total Investments	3,981,530	1,076,103	844,746	3,749	86,518	31,531	195,470	1,149,166	18,963	756,058	1,473	8,145,307
Receivables (Payables)												
Income Receivable (Payable)	(68)	(36)	-	-	(3)	(1)	(5)	-	(1)	-	-	(114)
Total Receivables (Payables)	(68)	(36)	-	-	(3)	(1)	(5)	-	(1)	-	-	(114)
Net Invested Assets	\$ 3,981,462	1,076,067	844,746	3,749	86,515	31,530	195,465	1,149,166	18,962	756,058	1,473	8,145,193

STATE OF ALASKA
DEPARTMENT OF REVENUE - TREASURY DIVISION
INVESTED ASSETS UNDER THE INVESTMENT AUTHORITY OF THE COMMISSIONER OF REVENUE

COMBINED SCHEDULE OF INVESTMENT INCOME
For the year ended June 30, 2021
(Expressed in thousands)

	GENERAL FUND and GeFONSI	CONSTITUTIONAL BUDGET RESERVE FUND MAIN	PUBLIC SCHOOL TRUST FUND	INVESTMENT LOSS TRUST FUND	GENERAL OBLIGATION BOND FUND	INTERNATIONAL AIRPORTS CONSTRUCTION FUND	INTERNATIONAL AIRPORTS FUND	POWER COST EQUALIZATION ENDOWMENT FUND	RETIREE HEALTH INSURANCE FUND		MINE RECLAMATION FUND	TOTAL INCOME (LOSS) YEAR ENDED 6/30/2021
									MAJOR MEDICAL	LONG-TERM CARE		
Investment Income (Loss)												
Short-term Fixed Income Pool	\$ 4,031	2,154	13	7	157	63	230	18	36	13	-	6,722
Intermediate-term Fixed Income Pool	(24)	-	-	-	-	-	-	-	-	-	-	(24)
Broad Market Fixed Income Pool	32	-	(642)	-	-	-	(1)	(1,854)	-	(1,117)	(1)	(3,583)
Domestic Equity Pool	75,612	-	117,518	-	-	-	-	100,083	-	69,451	205	362,869
International Equity Pool	42,759	-	65,019	-	-	-	-	52,051	-	38,425	113	198,367
Tobacco Revenue Fixed Income	5	-	-	-	-	-	-	-	-	-	-	5
Total Investment Income	122,415	2,154	181,908	7	157	63	229	150,298	36	106,772	317	564,356
Net Investment Income	\$ 122,415	2,154	181,908	7	157	63	229	150,298	36	106,772	317	564,356

INVESTED ASSETS UNDER THE INVESTMENT AUTHORITY OF THE COMMISSIONER OF REVENUE

Notes to Combined Schedules

June 30, 2021

(1) THE ACCOUNTING ENTITY

The accompanying combined schedules present the financial position and changes therein, as of and for the year ended June 30, 2021, for the invested assets of funds under the investment authority of the Commissioner of Revenue (Commissioner). The Commissioner is responsible for all deposits and investments of the State of Alaska (State) except where the Legislature has delegated that responsibility to other individuals or boards. As the fiduciary, the Commissioner has the statutory authority to invest the assets under the prudent investor rule. Alaska Statutes 37.10.070 and 37.10.071 provide that investments shall be made with the judgment and care under circumstances then prevailing that an institutional investor of ordinary professional prudence, discretion, and intelligence exercises in managing large investment portfolios.

These schedules represent only the investment activity of the funds and not the complete financial activity of the funds or the State as a whole. The complete financial activity of the funds is shown in the Annual Comprehensive Financial Report available from the Division of Finance in the Department of Administration.

The Department of Revenue, Treasury Division (Treasury) has created a pooled environment by which it manages the investments for which the Commissioner has fiduciary responsibility. Actual investing is performed by investment officers in Treasury or by contracted external investment managers. Specifically, the Tobacco Revenue Fixed Income, Domestic Equity and the International Equity Pools are managed externally. Treasury manages the Short-term Fixed Income Pool, Short-term Treasury Fixed Income Pool, Noninterest Bearing Deposits, Intermediate-term Fixed Income Pool, and Broad Market Fixed Income Pool in addition to acting as oversight manager for all externally managed investments.

For detailed information on the funds under the fiduciary authority of the Commissioner of Revenue, please see the Treasury's website at: <http://treasury.dor.alaska.gov/Investments.aspx>

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The combined schedules are prepared using the accrual basis of accounting for investment income (loss). Assets are reported at fair value. Investment purchases and sales are recorded on a trade-date basis.

Valuation

Fixed income securities are valued each business day using prices obtained from a pricing service when such prices are available; otherwise, such securities are valued at the most current sale price or based on a valuation provided by investment managers.

Noninterest Bearing Deposits are reported at cost, which approximates fair value.

Domestic and international equity securities are valued each business day using prices obtained from a pricing service or prices quoted by one or more independent brokers. Securities expressed in terms of foreign currencies are translated into U.S. dollars at the prevailing exchange rates. Forward currency contracts are valued at the mid-point of representative quoted bid and ask prices.

INVESTED ASSETS UNDER THE INVESTMENT AUTHORITY OF THE COMMISSIONER OF REVENUE
Notes to Combined Schedules
June 30, 2021

(3) NON-INTEREST BEARING DEPOSITS

At June 30, 2021, non-interest bearing deposits totaled \$41.9 million, comprised of various State agency cash held pending redemption of State warrants and compensating balances.

(4) FAIR VALUE MEASUREMENTS

Various inputs are used in valuing the investments held by the Commissioner. Generally accepted accounting principles (GAAP) establishes a hierarchy of inputs used to value investments emphasizing observable inputs and minimizing unobservable inputs. These inputs are summarized as follows:

Level 1 – Quoted prices for identical assets in an active market

Level 2 – Inputs, other than quoted prices, that are observable for the asset, either directly or indirectly or quoted in less active markets

Level 3 – Unobservable inputs. Unobservable inputs should only be used to the extent that observable inputs are not available for a particular asset

The Commissioner categorizes fair value measurements within the fair value hierarchy. The Commissioner has the following recurring fair value measurements as of June 30, 2021 (in thousands):

Investment by fair value level	Total	Level 1	Level 2	Level 3
Cash Equivalents				
Certificate of Deposit	\$ 23,012		23,012	
Deposits	64,704	64,704		
Money Market	10,429		10,429	
Repurchase Agreement	412,400		412,400	
Total Cash Equivalents	510,545	64,704	445,841	-
Debt Securities				
Corporate Bonds	954,892		954,892	
Mortgage Backed	534,225		534,225	
Municipal Bonds	17,820		17,820	
Other Asset Backed	1,598,127		1,598,127	
U.S. Government Agency	158,358		158,358	
U.S. Treasury Bills, Notes, and Bonds	3,028,821		3,028,821	
Yankee Corporate Bonds	311,069		311,069	
Yankee Government Bonds	77,718		77,718	
Total Debt Securities	6,681,030	-	6,681,030	-
Equity Securities				
Commingled Equity Funds	1,887,221	1,887,221		
Total Equity Securities	1,887,221	1,887,221	-	-
Total investments by fair value level	9,078,796	1,951,925	7,126,871	-
Total investments measured at fair value	9,078,796			
Other Fiduciary Responsibility	(610,487)			
Net Receivables / (Payables) from Investment Activity	(323,002)			
Total Commissioner Invested Assets	\$ 8,145,307			

INVESTED ASSETS UNDER THE INVESTMENT AUTHORITY OF THE COMMISSIONER OF REVENUE

Notes to Combined Schedules

June 30, 2021

Securities classified as level 1 are valued using prices quoted in active markets for those securities. Securities classified as level 2 are valued using matrix pricing. Pricing is obtained from various sources.

(5) DEPOSIT AND INVESTMENT RISK

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. At June 30, 2021 all fixed income securities met the Treasury's compliance metrics related to effective duration.

Short-term Fixed Income Pool

As a means of limiting its exposure to fair value losses arising from increasing interest rates, Treasury's investment policy limits individual fixed rate securities to 14 months to maturity or 14 months expected average life upon purchase. Floating rate securities are limited to 3 years to maturity or 3 years expected average life upon purchase. These constraints apply to trade date, except for securities bought at new issue, for which settlement date applies.

Intermediate and Broad Market Fixed Income Pools

Duration is a measure of interest rate risk. It measures a security's sensitivity to a 100-basis point change in interest rates. The duration of a pool is the average fair value weighted duration of each security in the pool taking into account all related cash flows. Treasury uses industry-standard analytical software developed by The Yield Book Inc. to calculate effective duration. The software considers various possible future interest rates, historical and estimated prepayment rates, call options and other variable cash flows for purposes of the effective duration calculation.

Through its investment policy, Treasury manages its exposure to fair value losses arising from increasing interest rates by limiting the effective duration of its other fixed income pool portfolios to the following:

Intermediate-term Fixed Income Pool - \pm 20% of the Barclays 1-3 Year Government Bond Index.

Broad Market Fixed Income Pool - \pm 20% of the Barclays Capital U.S. Aggregate Bond Index.

At June 30, 2021, the Commissioner's effective duration by investment type was as follows:

	Effective Duration <u>(in years)</u>
Certificate of Deposit	0.17
Corporate Bonds	6.19
Mortgage Backed	3.24
Municipal Bonds	13.67
Other Asset Backed	0.46
U.S. Government Agency	5.02
U.S. Treasury Bills, Notes, and Bonds	1.51
Yankee Corporate Bonds	2.42
Yankee Government Bonds	3.18
	2.11

INVESTED ASSETS UNDER THE INVESTMENT AUTHORITY OF THE COMMISSIONER OF REVENUE

Notes to Combined Schedules

June 30, 2021

Credit Risk

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations.

Short-term Fixed Income Pool investments are limited to instruments with a long-term credit rating of at least A3 or equivalent and instruments with a short-term credit rating of at least P-1 or equivalent. Commercial paper must be rated at least P-1 by Moody's and A-1 by Standard and Poor's. Asset-backed and non-agency mortgage securities must be rated A3 or equivalent. The A3 rating is defined as the median rating of the following three rating agencies: Standard & Poor's Corporation, Moody's and Fitch. Asset-backed and non-agency mortgage securities may be purchased if only rated by one of these agencies if they are rated AAA.

Intermediate-term and Broad Market Fixed Income Pool investments are limited to securities with a long-term credit rating of at least Baa3 or equivalent and securities with a short-term credit rating of at least P-1 or equivalent. The Broad Market Fixed Income Pool can hold within its portfolio up to 5% high-yield bonds. Asset-backed and non-agency mortgage securities must be rated investment grade. The investment grade rating is defined as the median rating of the following three rating agencies: Standard & Poor's Corporation, Moody's, and Fitch. Asset-backed and non-agency mortgage securities may be purchased if only rated by one of these agencies if they are rated AAA.

The bond indentures governing the investment of tobacco revenue related bond proceeds limit the investment in commercial paper to only those securities rated A-1 or equivalent. Tobacco Revenue Fixed Income Securities consisted of commercial paper rated A-1.

At June 30, 2021, the State's internally managed pools consisted of investments with credit quality ratings issued by nationally recognized statistical rating organizations as follows (using Standard and Poor's Corporation rating scale, in thousands):

	Short-Term Fixed Income	Broad Market Fixed Income Pool
AAA	\$ 1,653,230	201,569
AA	32,225	87,438
A	193,089	374,502
A-1	60,101	-
BBB	7,063	346,127
BB	-	6,521
U.S. Government Agency	-	158,358
U.S. Treasury Bills, Notes, and Bonds	2,559,528	469,294
Not Rated	389,053	578,344
No Credit Risk	(321,436)	21,085
Other Fiduciary	(348,326)	(120,810)
	\$ 4,224,527	2,122,428

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that deposits may not be returned in the event of a bank failure. Treasury's investment policy requires the State's depository banks to collateralize State deposits to the extent they exceed insurance coverage provided by the Federal Deposit Insurance Corporation (The FDIC provides \$250,000 of coverage). In accordance with Treasury policy, they are required to retain collateral equal to 100% of uninsured deposits.

INVESTED ASSETS UNDER THE INVESTMENT AUTHORITY OF THE COMMISSIONER OF REVENUE
Notes to Combined Schedules
June 30, 2021

The bond indentures governing the investment of tobacco revenue related bond proceeds, do not establish policy with regard to custodial credit risk.

At June 30, 2021, the State had no uncollateralized and uninsured deposits.

Concentration of Credit Risk

Treasury’s policy with regard to concentration of credit risk is to prohibit the purchase of more than five percent of a pool’s holdings in corporate bonds backed by any one company or affiliated group. At June 30, 2021, no pool had exposure to any one issuer greater than 5% of total invested assets.

Foreign Currency Risk

The Commissioner of Revenue formally adopts asset allocation policies for each fund at the beginning of each fiscal year, which places policy limitations on the amount of international securities each fund is allowed to hold. The following policies were in place during fiscal year 2021 and invested assets included the following holdings at June 30, 2021, for the funds invested in the International Equity Pool:

Fund Name	Policy	Actual
Education Endowment Fund	28% +/- 5%	27.56%
GeFonsi II	3% -3%/+5%	3.02%
Higher Education Fund	28% +/- 5%	27.57%
Illinois Creek Mine Reclamation Fund	28% +/- 5%	27.57%
Power Cost Equalization Endowment Fund	15% +/- 5%	14.80%
Public School Trust Fund	28% +/- 5%	27.56%
Retiree Health Insurance Fund, Long-Term Care	18% +/- 5%	17.76%

At June 30, 2021, the funds invested in the International Equity Pool had no exposure to foreign currency risk.

(6) FOREIGN EXCHANGE, FOREIGN EXCHANGE CONTRACTS, OFF-BALANCE SHEET RISK, AND DERIVATIVE EXPOSURE

The Commissioner is exposed to credit risk on investment derivative instruments that are in asset positions. The Commissioner has no policy of requiring collateral or other security to support derivative instruments subject to credit risk. Additionally, the Commissioner has no policy regarding entering into netting arrangements when it enters into derivative instrument transactions with a counterparty, nor does the Commissioner have a policy on contingencies. There was no income from derivative investments as of June 30, 2021.

The International Equity Pool includes foreign currency forward contracts to buy and sell specified amounts of foreign currencies at specified rates on specified future. The counterparties to the foreign currency forward contracts consist of a diversified group of financial institutions. Credit risk exposure exists to the extent of nonperformance by these counterparties; however, the risk of default is considered to be remote. The market risk is limited to the difference between contractual rates and forward rates at the balance sheet date. At June 30, 2021, the International Equity Pool had no outstanding contracts.